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## **INTRODUCTION**

Capital Area Community Services Inc. (CACS) entered into contract #CSBG-03-33004 with the Michigan Family Independence Agency (FIA) to provide programs to reduce poverty, revitalize low-income communities, and empower low-income families and individuals to become self-sufficient. The contract totaled \$1,060,860 and covered the period from October 1, 2002 through September 30, 2003. The current year contract totaled \$936,412 and covered the period October 1, 2003 through September 30, 2004. Capital Area Community Services Inc. (CACS) was reimbursed for actual costs incurred through the submission of monthly billings to FIA.

## **SCOPE**

The Office of Internal Audit performed an audit of CACS for the period October 1, 2002 through July 31, 2004 to determine if the Agency's billings were accurate, and if the costs charged were allowable and properly supported by the accounting records and other supporting documentation, in accordance with the terms of the contract.

## **EXECUTIVE SUMMARY**

Based on our audit, we conclude that Capital Area Community Services Inc. (CACS) did not use an acceptable method of allocation for charging salaries to FIA, and was not in compliance with Federal Office of Management and Budget (OMB) Circular A-122. While the audit was in progress, CACS developed a timekeeping system that documents time and activity for employees to comply with (OMB) Circular A-122. Our report recommends that the Bureau of Community Action and Economic Opportunity ensure the agency complies with (OMB) Circular A-122 time reporting requirements.

## **AGENCY RESPONSE**

The management of Capital Area Community Services has reviewed all findings and recommendations included in this report. They indicated in a letter dated January 28, 2005 that they are in general agreement with the finding.

## **FINDINGS AND RECOMMENDATIONS**

### **Salaries Expense**

1. CACS did not properly document employees' time and activity for each of the contracts per federal requirements. Federal Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, states in part "Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professional and non-professional) whose compensation is charged, in whole or in part, directly to awards....The reports must reflect an *after the fact* determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards. Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization."

CACS billed 100% of certain employees' time to the CSBG program even though they did not work 100% of the time on the program. Other employees were not billed to the CSBG program even though they worked some of their time on that program. The employees did prepare time sheets for daily time worked for a particular department. When the other funding sources were exhausted, CACS billed the CSBG contract for their salaries. There was adequate documentation that employees performed the services required by the contract, and the amount charged in total for

salaries appeared reasonable. Therefore, we are not recommending recoupment of any amounts CACS billed for salaries.

WE RECOMMEND the Bureau of Community Action and Economic Opportunity ensure that CACS continues its timekeeping procedures that comply with OMB Circular A-122.